

## Department of the Treasury .

P. O. Box 33013 Detroit, MI 48232

P. O. Box 33013 Detroit, MI 48232

District  
Director

Person to Contact:

Telephone Number:

**Not Toll Free**

Refer Reply to:

Date:

JAN 23 1981

"REGISTERED MAIL  
NUMBER [REDACTED]

Gentlemen:

We have considered your application for exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code.

The evidence presented discloses that you were incorporated [REDACTED], as a non-profit corporation in the State of [REDACTED]. Your purposes as stated in your Articles of Incorporation are (1) to engage in any one or more lawful mode or modes of acquiring, producing, building, operating, manufacturing, furnishing, exchanging or distributing any type or types of property, commodities, goods, or services for the primary and mutual benefit of the patrons of the corporation (or their patrons, if any) as ultimate consumers; (2) to educate consumers in the principles of consumer cooperation; (3) to encourage the development of consumer cooperative enterprises. Your membership is open to the general public and discounts are available only to members. Your receipts and expenditures are from the buying and selling of groceries.

Section 501(c)(7) of the Internal Revenue Code provides for exemption to clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 501(c)(7)-1(a) of the Income Tax Regulations states that the exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments.

Section 501(c)(7)-1(b) of the Income Tax Regulations states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). The term "other non-profitable purposes" means other purposes similar to pleasure and recreation.

The original burden is on the applicant to prove by a preponderance of the evidence that it falls within the intentment of the statute, i.e. that is, organized for pleasure, recreation and other non-profitable purposes. We hold that your organization has failed, on the application as presented before us, to carry its burden and the application for recognition of exemption from Federal income tax as an organization described in section 501(c)(7) is therefore denied.

In making this determination we have focused on both the purpose and the nature of your organizations activities.

The basis of our denial of exemption is that your organization is operated for a substantial commercial purpose - the economic benefit of patrons of the enterprise and in direct competition with similar profit - making enterprises. The organization is not operated for any of the purposes specified in Internal Revenue Code section 501(c)(7).

We have also considered the possibility of your organization qualifying for exemption under sections 501(c)(3) or 501(c)(4) and have concluded that you also fail to qualify under those sections of the Internal Revenue Code. Therefore, you are required to file Federal income tax returns on Form 1120. *Federation Pharmacy Services, Inc. v Commissioner*, 72 T.C. No. 60, July 30, 1979.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office Appeals Staff. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office or, if you request, at any mutually convenient District office.

Further instructions concerning protests are contained in the enclosed Publication 892. Your protests should be submitted within 30 days.

Any submissions must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a Power of Attorney and evidence of enrollment to practice must be met.

[REDACTED]

If we do not hear from you within the time specified, this communication will become our final determination.

Sincerely yours,

[REDACTED]

[REDACTED]

District Director

Enclosure:  
Publication 892

[REDACTED]